CITY COUNCIL REPORT

Meeting Date: June 7, 2011
Charter Provision: ***Provide for the orderly government and administration of the affairs of the City***
Objective: ***Adopt Annual Audit Plan***

ACTION

Adoption of City Auditor's Fiscal Year 2011/12 Audit Plan. Approve the City Auditor's FY 2011/12 Audit Plan as recommended by the Council's Audit Committee at its April 18, 2011, meeting.

BACKGROUND

Scottsdale City Code establishes parameters for operation of the City Auditor's Office (Office). The Office was established to independently evaluate the operational efficiency and effectiveness, compliance, and accountability of City departments, offices, boards, activities and agencies. The Office conducts its audits in accordance with generally accepted government auditing standards, which provide a framework for conducting high quality audits with competence, integrity, objectivity and independence.

City Code also establishes an Audit Committee of three City Council members appointed by the Mayor with the approval of City Council. Councilwoman Suzanne Klapp will serve as chair in the upcoming year; Councilman Robert Littlefield and Councilwoman Linda Milhaven will serve as committee members.

At least annually, the City Auditor is required to submit to the Audit Committee for its review and recommendation an Audit Plan listing the areas to be audited. The City Auditor is then to submit the recommended Audit Plan to the City Council for its review and approval.

The City Auditor presented a draft FY 2011/12 Audit Plan for discussion at the Audit Committee's March 21, 2011, meeting. Subsequently, on April 18, 2011, the Audit Committee reviewed and recommended the proposed FY 2011/12 Audit Plan for City Council review and approval.

ANALYSIS & ASSESSMENT

Recent Staff Action
The annual audit plan is designed to address City activities considered to be higher priority based on factors such as the following:

1. *Potential for cost savings and/or revenue enhancements.*
2. *Known Council, management or public interest/concern of a significant level.*

APPROVED ON CONSENT
Action Taken

3. *Known significant changes to a program, contract, or related legal requirement.*
4. *Operational significance to the City, such as full time equivalent positions, revenues or expenditures, and/or critical nature of the function.*
5. *Other audit organizations' recent audits showing notable potential for controlling risk or cost and/or improving efficiency and effectiveness.*
6. *Audit requests or suggestions received from City management.*
7. *Length of time since the last audit.*

Proposed Audit Plan for FY 2011/12. Fifteen audits, four of which are required or annual, are proposed for FY 2011/12. In addition, as listed in Table 1, the Audit Plan incorporates 2 special projects: updating the Risk Assessment model for planning purposes and undergoing the triennial peer review of the City Auditor's Office as required by government auditing standards.

Table 1. FY 2011/12 Proposed Audit Plan

Type	Audit Subject	Division
Required/Annual		
1.	SkySong Ground Lease Rent (contractual)	Community Services
2.	E-Verify Compliance of City Contractors (state requirement)	Citywide
3.	City Court's Triennial Review (state requirement)	City Court
4.	Follow-up on Status of Audit Recommendations (City Code requirement)	Citywide
Non-recurring		
5.	Indirect Cost Allocation	Finance & Accounting
6.	Tax & License Services	Finance & Accounting
7.	Utility Billing Services	Finance & Accounting
8.	Cultural Council Contract Compliance	Community & Econ Dev
9.	Wireless/Wired Telecommunications Services	Information Technology
10.	Utility Franchise Agreement Compliance	Information Technology/Public Works
11.	Palomino Library IGA Compliance	Community Services
12.	Concerned Citizens for Community Health Contract Compliance	Community Services
13.	IT Systems Review	Information Technology
14.	Airport Fixed Base Operators (FBO) Compliance	Airport
15.	Development/Plan Review Process	Community & Econ Dev
Special Projects		
16.	Citywide Risk Assessment Model	Citywide
17.	Triennial Peer Review of City Auditor's Office	City Auditor

Status of FY 2010/11 Audit Plan. Table 2 provides the current status of this fiscal year's Audit Plan.

Table 2. FY 2010/11 Audit Plan Status

Type	Audit Subject	Division	Report Issued
Required/Annual			
1.	Annual Audit Follow-up Report	Citywide	June 2011 *
2.	Cash Handling	Citywide	June 2011 *
3.	E-Verify Compliance of City Contractors (state requirement)	Citywide	April 2011
Non-recurring			
4.	Energy Billings Audit (contracted)	Public Works	March 2011
5.	Fleet Management	Public Works	November 2010
6.	Parks & Recreation IGAs	Community Services	September 2010
7.	Overtime Practices & Controls	Human Resources, Citywide	January 2011
8.	IT Controls – TotalHR® System	Human Resources, Finance & Accounting, Information Technology	January 2011
9.	Compensation Practices & Controls	Human Resources, Citywide	September 2010
10.	Housing Programs	Community Services	June 2011 *
11.	Printing & Graphics Services	Administrative Services	April 2011
12.	Remittance Processing	Finance & Accounting	April 2011
13.	Water & Sewer Rates	Water Resources	November 2010
14.	Meter Reading	Finance & Accounting	July 2011 **
15.	Tax Audit Assessments & Collections	Administrative Services	January 2011
16.	Benefit Plans: Claims Processing (contracted)	Human Resources	June 2011 *
Special Project			
17.	Residential Solid Waste Cost Analysis ** (added August 30, 2010)	Public Works	October 2010
*	Scheduled issuance date.		
**	With the addition of the Special Project (#17), the Meter Reading audit (#14) was extended to July 2011 completion.		

In addition, the *Special Event/Off-Duty Coordination* audit report (FY 2009/10 Audit Plan) was issued in August 2010 (FY 2010/11). The annual Audit Plans do not reflect the quarterly reports that are issued to fulfill the City Auditor's responsibilities as the City's Taxpayer Problem Resolution Officer.

Historical trend of Audit Plan completion. Table 3 illustrates the Office's productivity trends in recent years.

Table 3. Historical Trend of Audit Plan Completion

Fiscal Year	Planned Audits/Projects	Completed Audits/Projects	Full-Time Equivalent Staff
2002/03	6	5	8
2003/04	12	9	8
2004/05	12	10	8
2005/06	20	15	8
2006/07	22	10	8
2007/08	25	11	8
2008/09	15	13	8*
2009/10	17	16**	7*
2010/11	16	17**	7

*Staffing level reduced to 7 FTEs in May 2009.
**The FY 2009/10 *Special Events/Off-Duty Coordination* audit was issued in FY 2010/11.

RESOURCE IMPACTS

Available funding
The proposed FY 2011/12 budget for the City Auditor's Office provides $725,883 and 7 FTE, including the City Auditor and six professional audit staff. The Office's budget is sufficient for the proposed audits and estimated expenses for the triennial peer review of the City Auditor's Office.

Staffing, Workload Impact
The FY 2011/12 Audit Plan includes four required/annual audits, eleven non-recurring audits and two special projects. The proposed Audit Plan is achievable based on the Office's current staffing, experience levels and productivity. The Office's staff includes auditors with extensive knowledge of City of Scottsdale operations as well as advanced degrees and certifications such as Certified Public Accountant, Certified Fraud Examiner, Certified Internal Auditor and Certified Information Systems Auditor.

Cost Recovery Options
FY 2010/11 audits have identified approximately $1.7 million in potential cost savings and/or revenue enhancements. It is expected that the proposed audits for FY 2011/12 will also identify some potential cost savings and/or revenue enhancements.

OPTIONS & STAFF RECOMMENDATION

Prior to approval of this plan, the City Council can direct the addition or deletion of any proposed audit. The Audit Plan may be amended during the year after review by the Audit Committee. Additionally, the City Auditor may initiate and conduct any other audit deemed necessary or as directed by City Council. At its April 18, 2011, meeting, the Audit Committee reviewed the proposed FY 2011/12 Audit Plan and recommended the plan for City Council review and approval.

Recommended Approach
Approve the FY 2011/12 Audit Plan as proposed.

Description of Option B
Modify the FY 2011/12 Audit Plan and approve the modified plan.
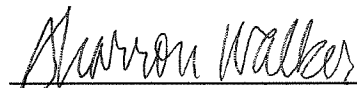
RESPONSIBLE DEPARTMENT(S)

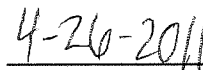City Auditor's Office

STAFF CONTACTS (S)

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APPROVED BY

Sharron Walker   4-26-2011

Sharron Walker, City Auditor   Date

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ATTACHMENTS

1. Proposed FY 2011/12 Audit Plan, with the planned audit objectives

1. **Indirect Cost Allocation** – Review methodology and accuracy of calculations and charges to divisions. (The charges specifically affect enterprise funds).

2. **Tax and License Services** – Review processes, controls and efficiency measures for administration of City taxes and licenses and related customer service.

3. **Utility Billing Services** – Review processes, controls and efficiency measures for administration of City utility service accounts and related customer service.

4. **Cultural Council Contract Compliance** – Review compliance with contractual requirements of the current Management Services and Financial Participation Agreements.

5. **Wireless/Wired Telecommunication Services** – Review compliance with City policies for wireless telecommunication devices, including justification of need, costs, and actual use. Audit may also include the verification of wired telecommunication services, such as billed lines and circuits.

6. **Utility Franchise Agreement Compliance** – Review compliance with contractual requirements for selected franchise agreements.

7. **Palomino Library IGA Compliance** – Review compliance with contractual requirements for cost sharing with Scottsdale Unified School District.

8. **Concerned Citizens for Community Health Contract Compliance** – Review contract compliance and internal controls over handling and use of donations, eligibility, screening, and security of personal information.

9. **IT Systems Review** – Review GenTax, NorthStar, iNovah or other financial system. This audit is planned to focus on the effectiveness of general application controls, including security management, system access, and change management.

10. **Airport FBO Compliance** – Review compliance with Fixed Based Operator agreements' contractual requirements.

11. **Development/Plan Review Process** – Review processes and controls for notifications, interpretations, hearings, public input, etc.

REQUIRED/ANNUAL AUDITS

12. **SkySong Ground Lease Rent** – Exercise the City's right to audit the SkySong annual financial statement that provides the basis for the amount of rent due. This audit may be conducted on an annual basis. (To date, there has been a reported loss and no rent due.)

13. **E-verify Compliance** – Randomly select City contractors and confirm they are using the E-verify program as required by state and federal law. The City is required by state statute to conduct this work.

14. **City Court's Triennial Review** – Complete specific review procedures of the City Court's operations as specified by the state Administrative Office of the Courts. The Arizona Supreme Court requires the triennial review of each court's accounting records, procedures, automated financial management system records and internal controls. (Report due May 2012)

15. **Follow-up on Status of Audit Recommendations** – Review, assess, and report on the status of management's corrective actions taken in response to audit findings and recommendations of prior audits.

SPECIAL PROJECTS

16. **Citywide Risk Assessment Model** – Develop a formal risk assessment model to identify key risk areas or activities within City operations.

17. **Triennial Peer Review** – The City Auditor's office is required to undergo a quality review on a three year cycle. This peer review, performed by the national Association of Local Government Auditors to evaluate compliance with government auditing standards, is again due in May 2012.

ATTACHMENT 1